RONG VIET
SECURITIES

PRELIMINARY 2H2021 OUTLOOK

RONG VIET SECURITIES

SUGAR INDUSTRY

SUGAR PRICE SURGE TO LEAD GROWTH

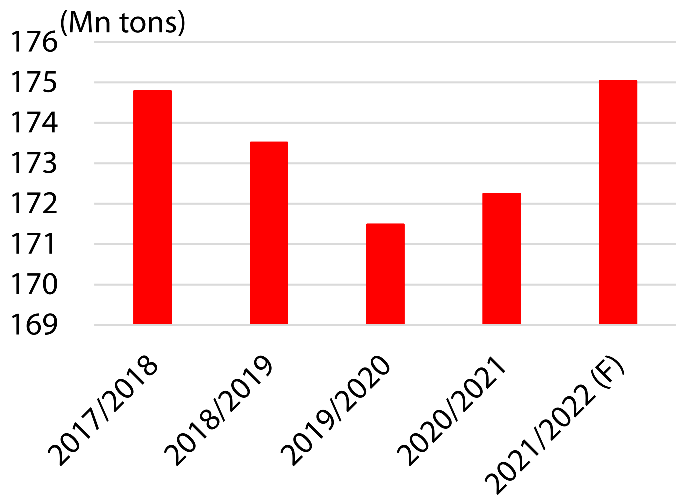
Toan Dao – toan.dp@vdsc.com.vn

GLOBAL SUGAR PRICE SOARED 64% IN ONE YEAR

Global sugar price has witnessed one year surge on the back of:

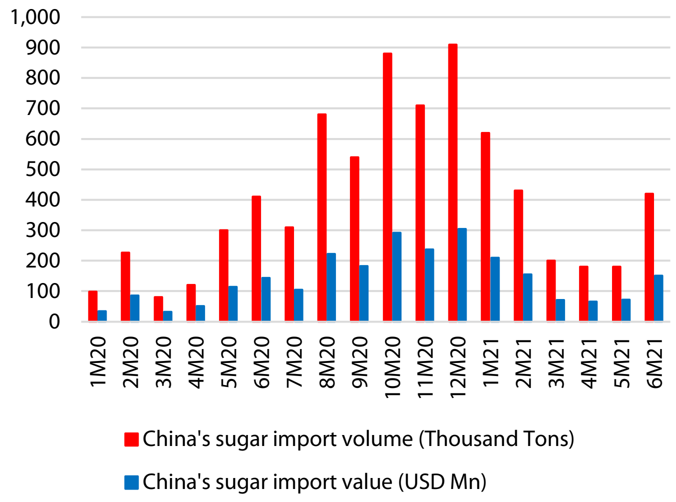
- F&B demand recovery in large countries that have controlled Covid-19's spread. In which, China's commodity storage, which has seen an increase of sugar volume of 16 times YoY in FY2020 and 3 times YoY in 4M-FY21.
- The supply chain disruption amid pandemic causing higher logistic costs.
- The stronger domestic currency against USD of large sugar exporters (Thailand, Euro, Brazil).

Figure 1: Global sugar consumption



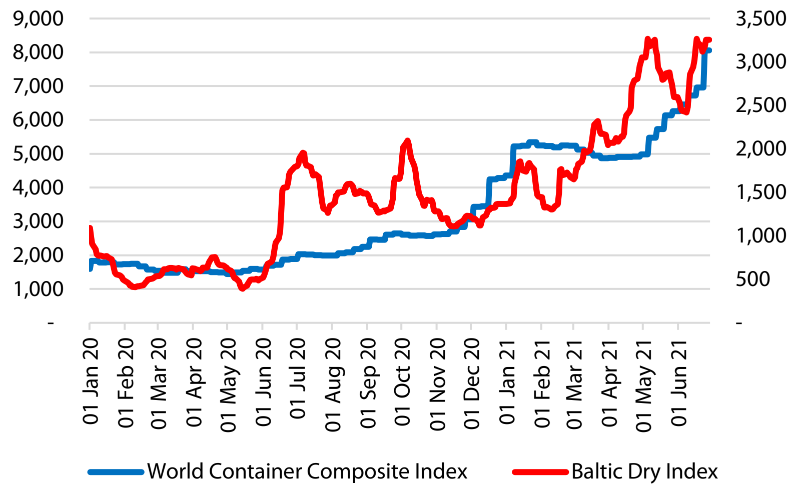
Source: USDA, Rong Viet Securities

Figure 2: China's sugar import



Source: China Custom, Rong Viet Securities

Figure 3: Global logistic cost have escalated

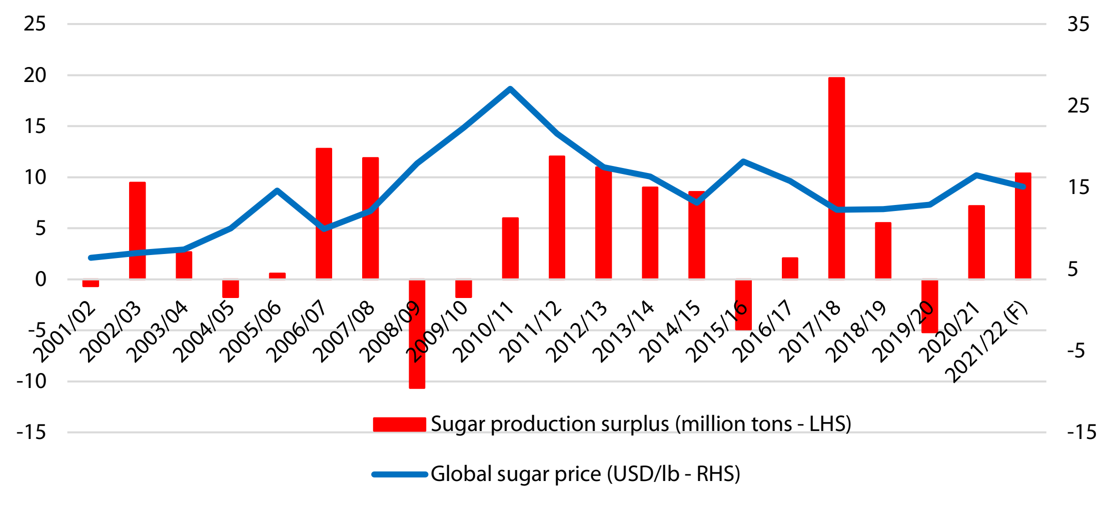


Source: Bloomberg, Rong Viet Securities

Global sugar prices are expected to increase 30% YoY for the whole FY2021 but will moderate H2 2021 compared to that in H1 2021 given some dragged-down factors in the coming quarters:

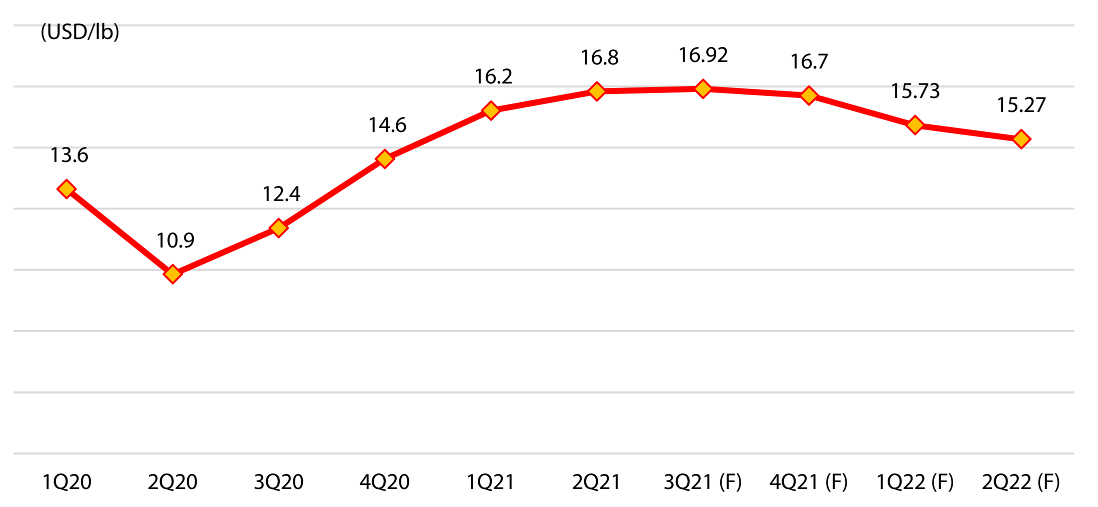
- *Global sugar industry to witness production surplus of 10 Mn tons in 2021/2022.* Per USDA, global sugar production will reach 183 Mn tons, increasing at 3% YoY while global sugar consumption is estimated to be 173 Mn tons, increasing 2% YoY. Furthermore, global sugar exports will reach 66 Mn tons, increasing 3% YoY with a global surplus at around 12 Mn tons in 2021/2022.
- *Logistic cost increases to decelerate from H2 2021* as global economic recovery and worldwide vaccine program acceleration will help global container shortage and congestion at large container shipping ports to be solved gradually.

Figure 4: Global sugar production surplus and sugar price



Source: USDA, Bloomberg, Rong Viet Securities

Figure 5: Quarterly global sugar price

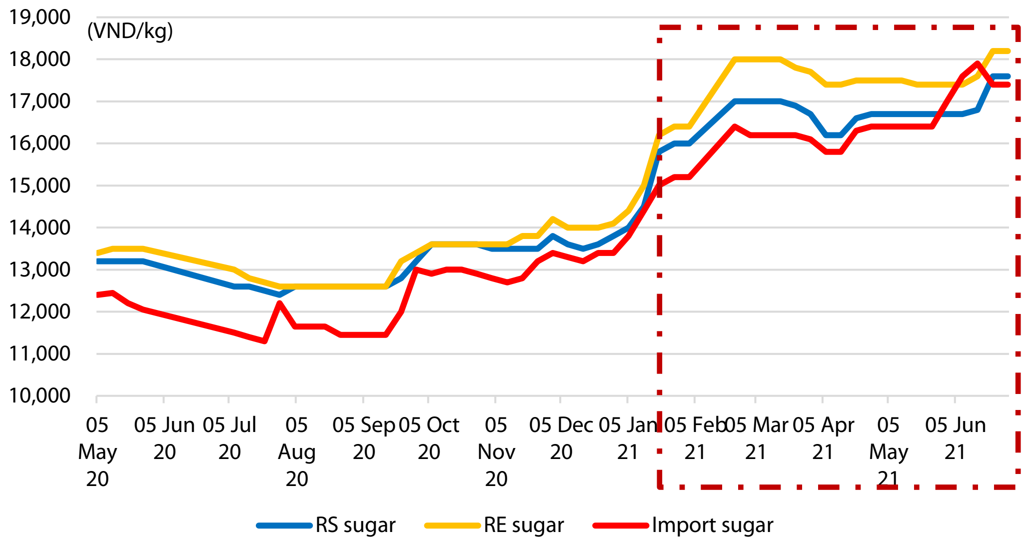


Source: Bloomberg, Rong Viet Securities, (F): Forecast

OFFICIAL TAX BARRIER IMPOSED ON THAI-ORIGIN SUGAR TO PROMOTE VIETNAM'S DOMESTIC SUGAR PRICE

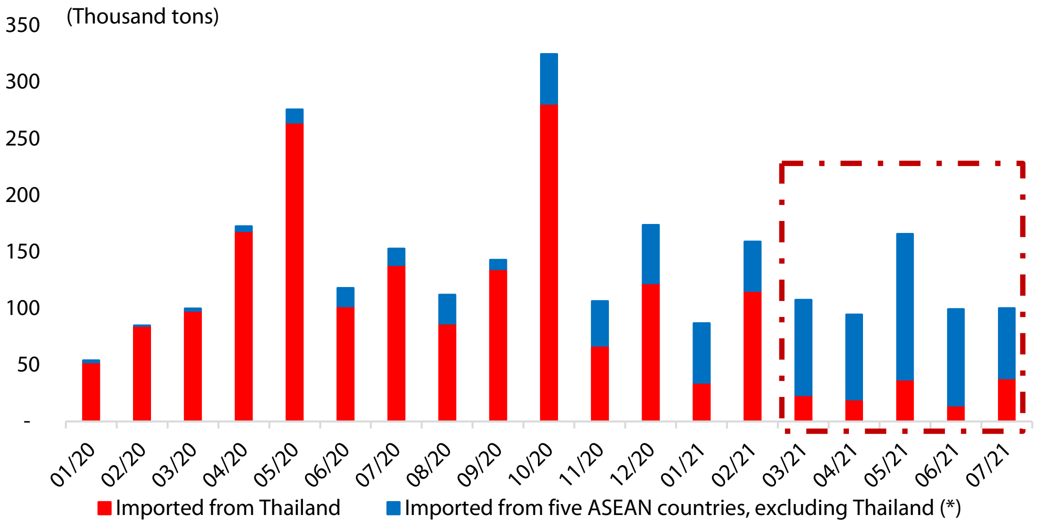
	Preliminary	Official
Tax rate	• Raw sugar: 33.88% • Refine sugar: 44.88%	• Raw sugar: 47.64% • Refine sugar: 47.64%
Effective term	• 09 Feb 2021	• 16 Jun 2021 • Valid in five year

Figure 6: Vietnam sugar domestic price and import price



Source: VSSA, Rong Viet Securities

Figure 7: Vietnam's sugar volume import



Source: AgroMonitor, VSSA, Rong Viet Securities

(*) Cambodia, Indonesia, Laos, Malaysia, Myanmar

Creating fair competitive environment between domestic sugar and Thailand-origin sugar:

- The strong method to prevent the unfair price competition of Thai-origin sugar.
- Domestic sugarcane price has also reacted positively to this event as increasing VND 100-200 thousand/ton in recent months.
- 4M-FY21 sugar volume imported from Thailand has plunged 68% YoY compared to four months before tax tariff valid day (in Feb 2021).

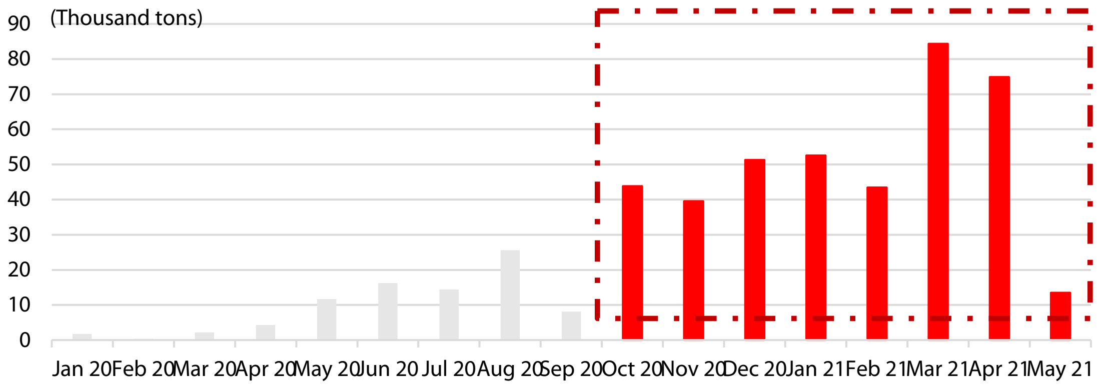
Promoting the uptrend of domestic sugar price and producers's profit margins

- Vietnam's domestic sugar price still remains at 20% lower price compared to ASEAN countries and China, while production cost of many Vietnamese sugar producers have decreased to those of Thai-origin sugar and region average.

The coming solution will focus on restricting the presence of Thai-origin sugar throughout other ASEAN countries

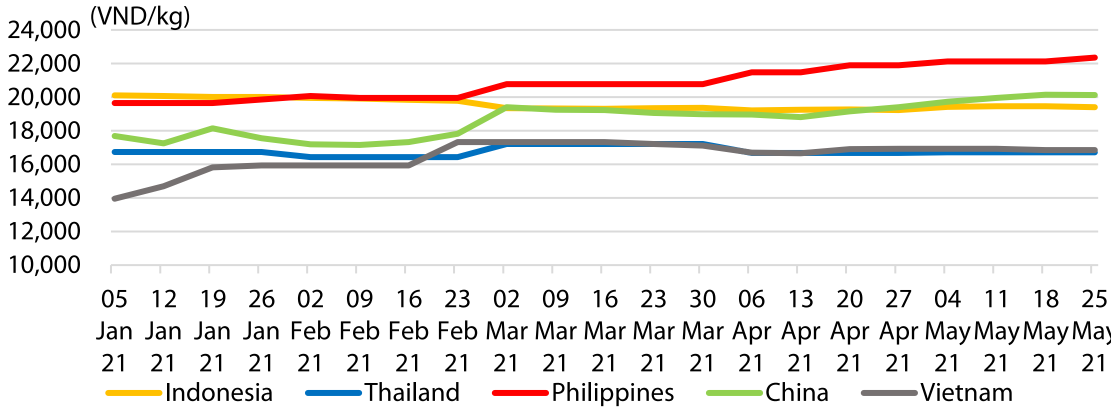
- Sugar import volume from ASEAN countries (including Cambodia, Indonesia, Laos, Malaysia, Myanmar but excluding Thailand) has surged 79% to 255 thousand tons. The volume surpasses domestic sugar producing capacity of these five countries, implying the ability of Thail-origin sugar to implement the third country export to avoid anti-dumping tax tariff.

Figure 8: Import sugar volume from Cambodia, Indonesia, Laos, Malaysia and Myanmar



Source: VSSA, Rong Viet Securities

Figure 9: Domestic selling sugar price by country



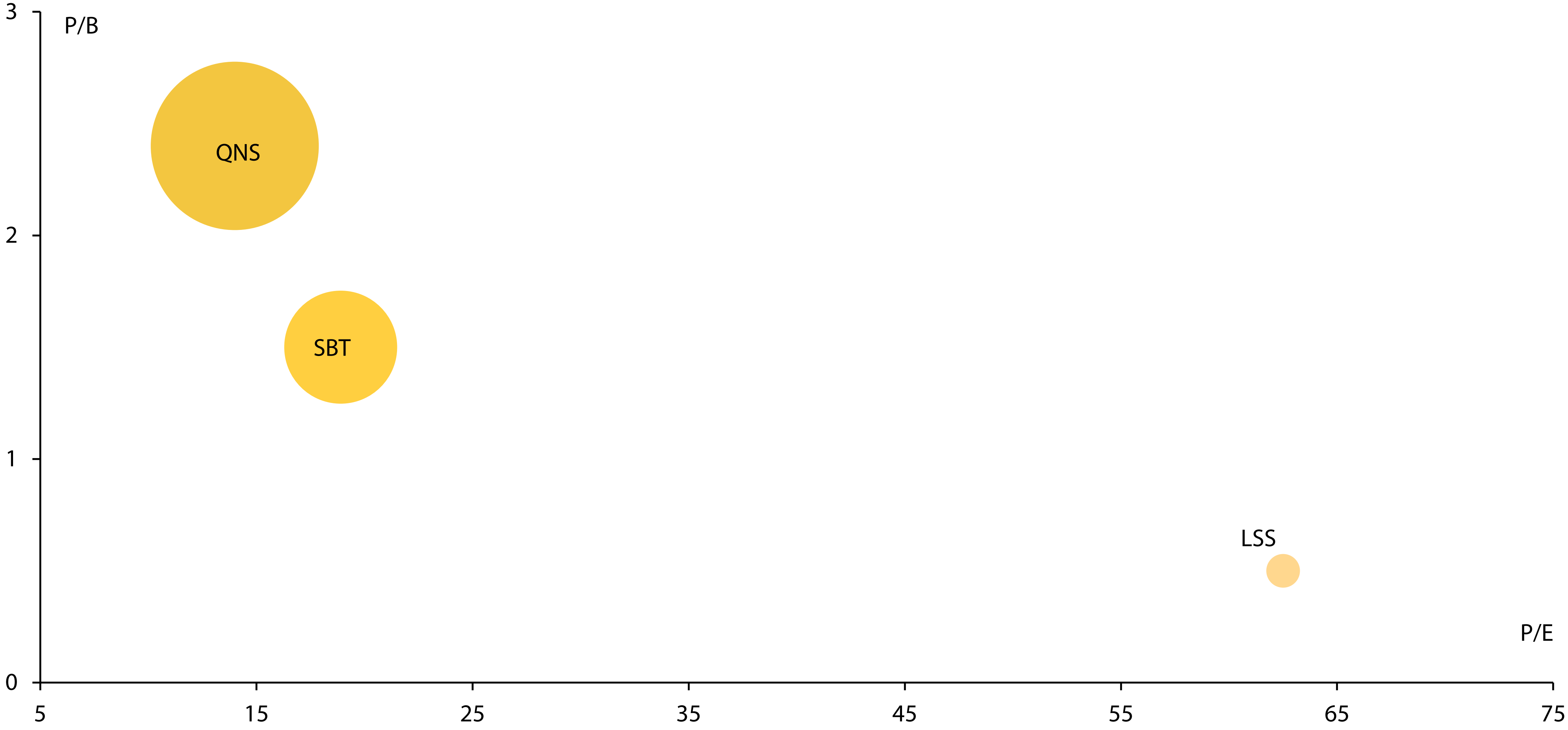
Source: Bloomberg, Rong Viet Securities, (F): Forecast

SUGAR INDUSTRY COMPARABLE (TTM)

Ticker	Market cap (USD mn)	Target price (VND)	Sales Growth (% YoY)	EBITDA Growth (% YoY)	EBITDA Margin (%)	Operating Income Margin (%)	Net Income Growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
QNS	15,802	50,000	0.8	-6.7	24.3	17.6	-5.2	16.4	12.5	17.5	7.0	14.0	2.4
SBT	12,073	N/A	15.1	42.5	10.5	7.7	73.9	4.3	3.2	7.9	2.3	18.9	1.5
LSS	694	N/A	-13.6	n/a	0.0	0.0	-41.1	0.0	0.0	0.0	7.0	62.4	0.5

Source: Bloomberg, RongViet Securities. Share price as of 02 Aug 2021.

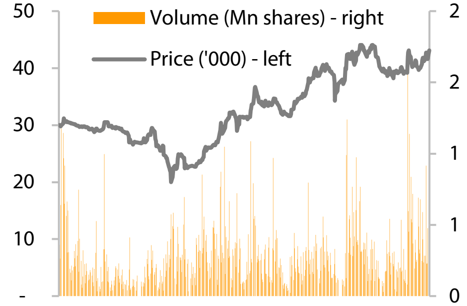
PE, PB AND ROE (TTM)

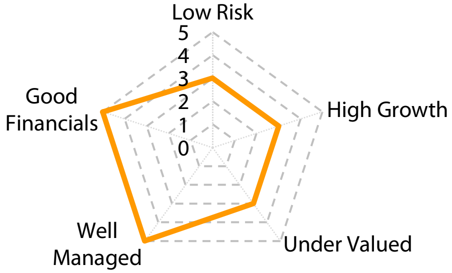


Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 02 Aug 2021.

FY2021 NPAT GROWTH BOOSTED BY SUGAR SEGMENT

<ACCUMULATE: 19%> **<MP: 44,270>** **<TP: 50,000>**





STOCK INFO

Sector	Food & Beverage
Market Cap ($ mn)	15,802
Current Shares O/S (mn shares)	357
3M Avg. Volume (K)	749
3M Avg. Trading Value (VND Bn)	32
Remaining foreign room (%)	33
52-week range ('000 VND)	46.6-29.2

FINANCIALS

FINANCIALS	2020A	2021F	2022F
Revenue (VND Bn)	6,490	7,416	9,276
NPATMI (VND Bn)	1,053	1,232	1,540
ROA (%)	11.5	12.5	14.0
ROE (%)	15.9	17.7	20.3
EPS (VND)	3,463	4,004	5,008
Book Value (VND)	21,915	23,114	25,121
Cash dividend (VND)	3,000	3,000	3,000
P/E (x) (*)	7.8	12.6	10.0
P/B (x) (*)	1.2	2.2	2.0

INVESTMENT RATIONALES

Sugar segment to be the brightest one in FY2021

- We attribute sugar price increase to the combined positive impact of (1) FY2021 increase of average global sugar price and (2) the positive impact of tax imposition on Thai-origin sugar.
- Sugar segment's FY2021 NPAT to achieve VND 326 Bn (or USD 14 Mn), driven by 85% YoY revenue growth and widening gross margin of +2,102 bps YoY.
- Riding on sugar segment pillar, QNS will reach VND 7,416 Bn revenue (or USD 321 Mn, +14% YoY) and VND 1,232 Bn NPAT (or USD 53 Mn, +17% YoY) in FY2021.

Business growth to be strengthened in the long term

- We estimate QNS to reach 13% estimated five year CAGR NPAT, premised by 12% and 19% five year CAGR NPAT of soy milk and sugar segment, respectively, which are driven by (1) soymilk demand recovery post-2021, (2) soy milk's profit margin to improve year-by-year and (3) positive effect of Thai-origin sugar's tax imposition on sugar segment's business results.

Stable cash flow combined with strong cash flow yield

- 28% average D/E ratio with no long-term debt in FY2021-2025.
- Strong cash flow generation with USD 78 Mn annual average free cash flow and 16% FCF/EV.

RISKS TO OUR CALL

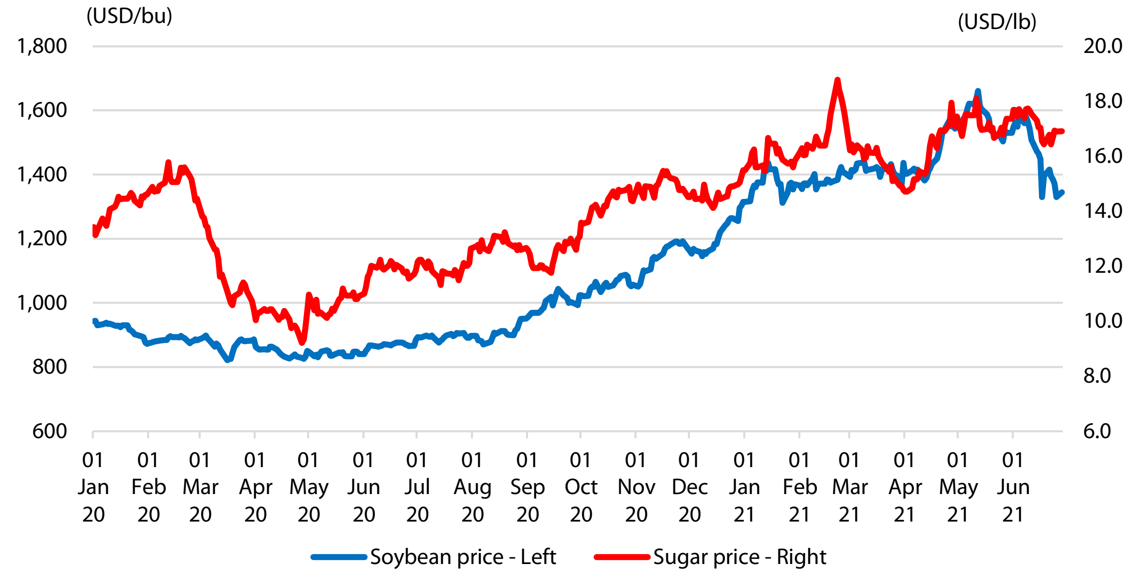
- Covid-19's extending impact on F&B consumption.
- Increasing commodity price volatility (sugar price and soybean price).
- The instability of Vietnam's sugarcane productivity.

Table 1: 1H-FY21 results

(VND Bn)	1H-FY21	+/- (%) HoH	+/- (%) YoY
Revenue	3,670	13.3	12.9
Gross profit	1,040	(4.1)	7.6
EBIT	563	(14.6)	11.8
NPAT	521	(15.3)	19.3

Source: VNM, Rong Viet Securities

Figure 1: Soybean price and sugar price



Source:: Bloomberg, Rong Viet Securities

1H-FY21 results

- 1H-FY21's revenue was VND 3,670 Bn (USD 159 Mn, +13% YoY). 1H-FY21 NPAT was VND 521 Bn (23 Mn USD, +19% YoY). 1H-FY21 revenue and profit growths were led by the outstanding performance of sugar segment.
- 1H-FY21 sugar segment achieved revenue of 869 Bn VND (38 Mn USD, +63% YoY) thanks to sugar price growth of 27% YoY and sugar output growth 28% YoY, per our estimates.
- The high double-digit growths of selling price and volume promoted sugar segment's gross profit to reach VND 144 Bn (USD 6.2 Mn, 41 times YoY) and gross margin of 17%. We estimate the sugar segment's 1H-FY21 NPAT at VND 106 Bn (USD 5 Mn) and contribute 20% of QNS's NPAT in 1H-FY21.
- 1H-FY21 soy milk reached VND 1,907 Bn (USD 83 Mn USD, +2% YoY), mainly backed by the growth of milk consumption in the context of flat selling prices YoY. Gross profit of soy milk segment was VND 789 Bn (USD 34 Mn, -7% YoY), affected by the shrinking gross profit margin (41%, - 406 bps YoY) due to hiking soybean price in 1H-FY21.

Table 2: 2H-FY21 forecast

(VND Bn)	2H-FY21	+/- HoH	+/- YoY
Revenue	3,746	2.1	15.6
Gross profit	1,341	28.9	23.6
EBIT	828	47.0	25.6
NPAT	710	36.2	15.3

Source: Rong Viet Securities

Table 3: FY2021 forecast

(VND Bn)	FY2019	FY2020	FY2021F	FY2022F
Revenue	**7,681**	**6,490**	**7,416**	**9,276**
Growth (%)	-4.4	-15.5	14.3	25.1
Gross profit	**2,456**	**2,051**	**2,381**	**2,838**
Gross margin (%)	32.0	31.6	32.1	30.6
SG&A expense	1,000	888	990	1,088
SG&A ratio (%)	13.0	13.7	13.3	11.7
EBIT	**1,457**	**1,163**	**1,391**	**1,750**
EBIT margin (%)	19.0	17.9	18.8	18.9
NPAT	**1,292**	**1,053**	**1,232**	**1,540**
Net margin (%)	16.8	16.2	16.6	16.6

Source: Rong Viet Securities

2H-FY21 forecast

1) Overall revenue to grow at 16%, driven by sugar segment's robust revenue growth of 111%, while soy milk segment's revenue will grow at 2% YoY.

2) Overall NPAT to grow at 15% YoY on the bach of sugar segment's NPAT contribution (VND 220 Bn, or USD 10 Mn).

FY2021 forecast

In FY2021, QNS will reach VND 7,416 Bn (or USD 321 Mn, +14% YoY) in revenue and VND 1,232 Bn (or USD 53 Mn, +17% YoY) in NPAT:

- **QNS's positive NPAT growth is mainly driven by the sugar segment.** We estimate the segment's FY2021 NPAT to be VND 326 Bn (or USD 14 Mn) thanks to a 85% YoY revenue growth and widening gross margin of +2,102 bps YoY.
- **Soy milk segment to record weak performance with NPAT decrease of 13% YoY**, caused by YoY 3% ASP decrease amid Covid-19's resurgence, higher promotion costs to stimulate soy milk demand post-Covid-19 and the increase of input material prices to dampen margins.

Table 3: Soy milk segment FY2021 – forecast

(VND Bn)	FY2019	FY2020	FY2021F	FY2022F
Revenue	**4,266**	**3,875**	**3,947**	**4,351**
Gross profit	**1,914**	**1,709**	**1,619**	**1,824**
Gross margin	44.9	44.1	41.0	41.9
EBIT	**1,130**	**997**	**873**	**1,024**
EBIT margin	26.5	25.7	22.1	23.5
NPAT	**979**	**873**	**765**	**889**

Source: Rong Viet Securities

Table 4: Sugar segment FY2021 – forecast

(VND Bn)	FY2019	FY2020	FY2021F	FY2022F
Revenue	**1,486**	**994**	**1,840**	**3,301**
Gross profit	**155**	**32**	**445**	**697**
Gross margin	10.4	3.2	24.2	21.1
EBIT	**113**	**-4**	**400**	**615**
EBIT margin	7.6	-0.4	21.7	18.6
NPAT	**91**	**-9**	**326**	**499**

Source: Rong Viet Securities

FY2021 Soy milk segment

1) Expect 5% YoY volume growth while ASP to decrease 3% YoY amid Covid-19's resurgence.
2) The increase of input sugar and soybean prices will contract QNS's soy milk margins in FY2021.
3) Long-term outlook for QNS's soy milk products:

- Dairy demand recovery as the nationwide vaccine program acceleration will repel the pandemic.
- The ability to gain more market share of branded soy milk products, currently accounting for nearly 55% of Vietnam's total soy milk retailing value. It has a dominant position in Vietnam's branded soy milk with a 89% market share.
- QNS's strategy to launch new dairy products, which supports the ASP improvement and expand soy milk market share.

FY2021 Sugar segment

1) FY2021 sugar price to increase 32% YoY, due to the combined positive effect of global sugar price increases and tax imposition on Thai-origin sugar.
2) FY2021 consumption volume to increase 41% YoY as RS sugar volume to recover 30% YoY from FY2020's low base while RE sugar will contribute sales volume of 10,000 tons in 2H-FY21.

Table 5: Valuation Summary

FCFE		SoTP (VND Bn)		
Risk Free Rate	1.1%	Business segment	Method	Valuation
Market Return	15.8%	Soy milk	P/E 13.4x	34,157
Equity Beta	1.2	Sugar	P/E 7.1x	7,745
Risk Premium (due to only listing on UPCoM)	3.0%	Biomass	FCFE	2,553
Cost of Equity	15.8%	Other (beer, mineral water)	P/E8.4x	5,194
Valuation (VND)	**50,903**	Valuation (VND)		**49,649**
Target price, VND (50% FCFE, 50% SoTP)				**50,000**

Source: Rong Viet Securities

For FY2021, the bright performance of the sugar business will lead the company's consolidated NPAT growth and cushion the lackluster soy milk segment. Beyond FY2021, we rely on a resurgence of F&B demand.

We estimate QNS to reach a 13% estimated five year CAGR NPAT and 16% FCF/EV in FY2021-2025, premised by 12% and 19% five year CAGR NPAT of the soy milk and sugar segments, respectively. Drivers will be (1) soymilk demand recovery post-2021, (2) soy milk's profit margin to improve year-by-year and (3) positive effect of tariff on Thai sugar.

Based on the 50%:50% valuation mix of DCF and SoTP, we evaluate QNS share value at VND 50,000. Because of market price increase of 10% since our previous BUY projection , we recommend to **ACCUMULATE** the stock with a total expected return of 19%, including a 7% cash dividend yield.

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RONG VIET SECURITIES

VIET DRAGON SECURITIES CORPORATION

Viet Dragon Tower, 141 Nguyen Du Street, Dist.1, HCMC, Vietnam

vdsc.com.vn

Ms. Lam Nguyen
Head of Research
F: + 84 28 6299 2006 (Ext: 1313)
E: lam.ntp@vdsc.com.vn

Mr. Vu Nguyen
Head of Institutional Clients
F: + 84 8 6299 2006 (Ext: 1367)
M: vu.na@vdsc.com.vn